Washington, DC—Rep. Peter DeFazio today applauded the release of a report by the environmental group Friends of the Earth, which raises concerns about the implementation of a carbon cap-and-trade system. A cap and trade system sets pollution limits (the "cap") and doles out allowances that can be bought and sold to meet the targets (the "trade"). Current proposals include very little regulation of the trading of these allowances. In Europe, emissions continue to rise despite $60 billion worth of allowances being traded in the lucrative market every year. DeFazio has been a long time critic of an unregulated market-based approach to address climate change, pointing to the potential for market manipulation, speculation, and profiteering.

Rep. Peter DeFazio today applauded the release of a report by the environmental group Friends of the Earth, which raises concerns about the implementation of a carbon cap-and-trade system. A cap and trade system sets pollution limits (the "cap") and doles out allowances that can be bought and sold to meet the targets (the "trade"). Current proposals include very little regulation of the trading of these allowances. In Europe, emissions continue to rise despite $60 billion worth of allowances being traded in the lucrative market every year. DeFazio has been a long time critic of an unregulated market-based approach to address climate change, pointing to the potential for market manipulation, speculation, and profiteering.

"The U.S. must be a leader in reducing green house gas emissions, but we should reconsider the rush to implement an untested, unregulated market-based system to respond to a serious issue like climate change," DeFazio said. "Deregulation brought a meltdown to West Coast electricity markets and helped cause our current financial crisis. Yet, here we are again talking about a deregulated market to respond to one of the most important and pressing challenges of our time, global warming."

The Friends of the Earth report points out that currently, most carbon is sold as what is known as a "futures contract" meaning, the carbon credit is sold at a certain price, on a specified date. This is a form of "derivative." Today’s carbon markets are small, but if the United States adopts carbon trading on the scale envisioned by most federal cap-and-trade proposals, carbon futures will become what Commodities Future Trading Commissioner Bart Chilton called "the biggest of any derivatives product," and have far reaching consequences.

DeFazio and Friends of the Earth both worry that due to the lack of regulation in the markets, this will create a "carbon bubble" because the size of the secondary market (where individual or repackaged carbon is sold for the second, third, or twentieth time) will far out shadow the primary market (where carbon is bought and sold for the first time). This means, people will be taking bets on carbon credits the same way they were on subprime mortgage derivatives. Bets made in the secondary market carry a higher probability of not being paid, much like subprime loans or junk bonds. In Europe, banks are already trading in this risky carbon derivatives market. If this is allowed to happen in the United States, Friends of the Earth and DeFazio both worry that the "carbon bubble" would be highly susceptible to a massive collapse, similar to the effect subprime mortgages had on the financial market last year.

"An unregulated cap-and-trade system could be the next subprime mortgage bubble," DeFazio said. "In the next decade we could easily be talking about ‘subprime carbon,’ ‘carbon default swaps,’ and ‘junk carbon.’ The Friends of the Earth report is sobering and should be the canary in the coalmine of an unregulated cap-and-trade system."

Not only is the creation of a "carbon bubble" risky, it will do almost nothing to reduce carbon emissions. Derivatives’ trading does not help businesses develop cleaner technology, invest in renewable energy, and ultimately reduce emissions. Instead, it would distort supply-and-demand fundamentals and will help inflate prices, devastating our manufacturing and energy sectors, and leaving the American consumer to bear the brunt of the cost. Furthermore, with the exception of electric utilities, sources of green house gases are not generally required to monitor or report their emissions. This means carbon targets are based on our best guesses, not exact science. As they did in Europe, armies of lobbyists have already been deployed to Washington, D.C. to try and influence the carbon baseline. Under a cap-and-trade in Europe, emissions have never been reduced.

The report can be found at:

http://www.foe.org/subprimecarbon